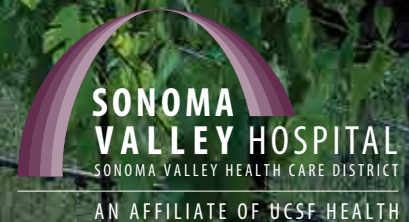
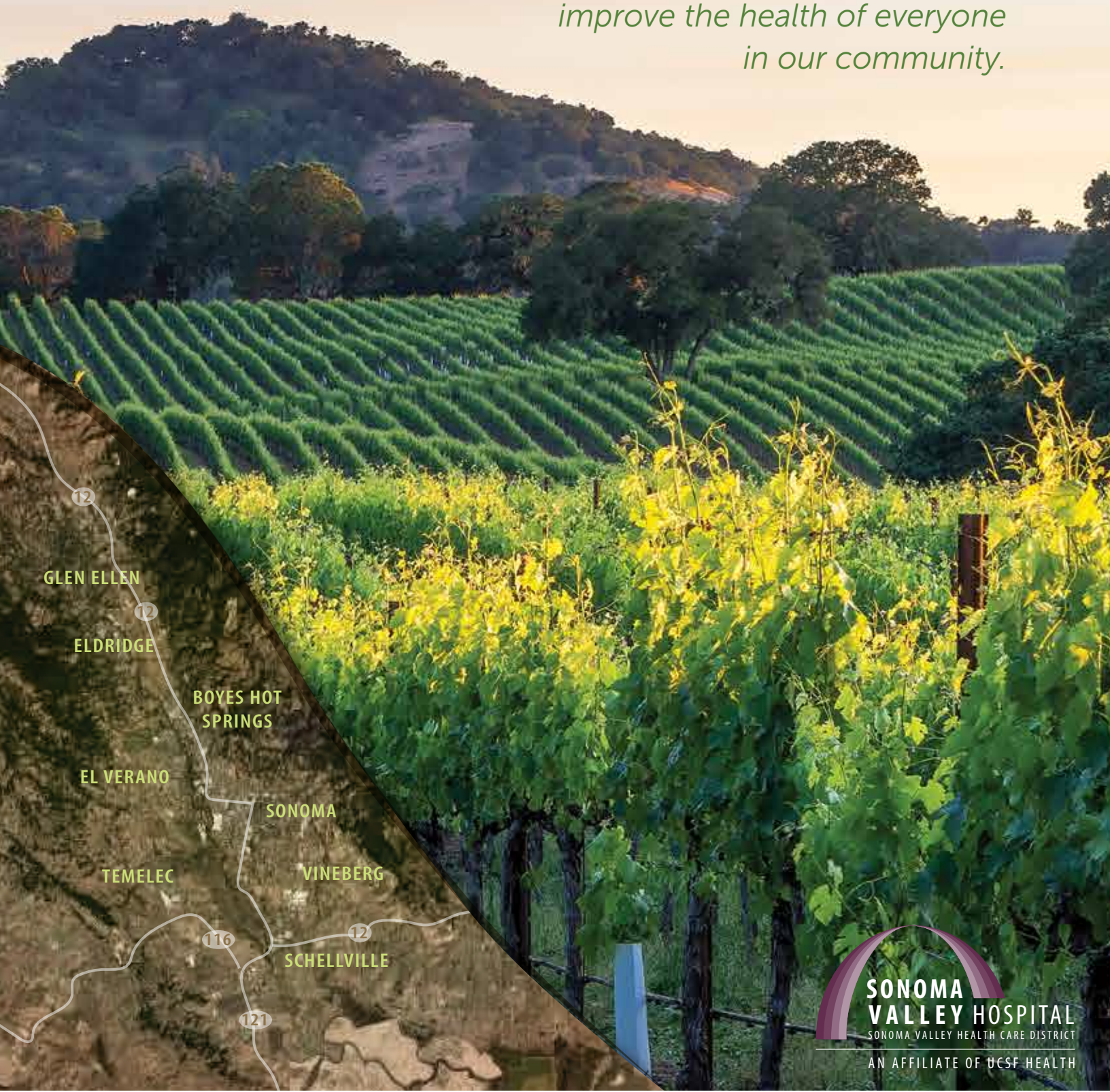


SONOMA VALLEY HOSPITAL

2019 Three-Year Rolling Strategic Plan

Our mission is to restore, maintain and improve the health of everyone in our community.



FY 2019 Rolling Three-Year Strategic Plan

- I. Our Mission – why we exist – To restore, maintain and improve the health of everyone in our community.
- II. Our Vision – what we always want to be – A trusted resource for compassionate, exceptional healthcare.
- III. Our Values are always CREATING a Healthy Hospital:
 - C = Compassion (We show consideration for the feelings of others at all times)
 - R = Respect (We honor and acknowledge the value of people and resources in providing care)
 - E = Excellence (We strive to exceed the expectations of the people we serve)
 - A = Accountability (We are reliable, responsible owners of the outcomes of the organization)
 - T = Teamwork (We are productive and participative staff members who energize others)
 - I = Innovation (We seek new and creative solutions to deliver quality healthcare)
 - N = Nurturing (We inspire those with whom we work to achieve their highest potential)
 - G = Guidance (We direct our community members through their healthcare journey)
- IV. Strategies for FY 2019 - 2021
- V. Environmental Assessment
- VI. Competitive Position
- VII. SVH Situation Analysis
- VIII. Strategic Tactics for FY 2019 - 2021

IV. Sonoma Valley Hospital Strategic Priorities 2019-2021

1. Achieve the highest levels of healthcare safety, quality and value
2. Be the preferred hospital for patients, physicians, employers and health plans
3. Identify and implement new and enhanced revenue strategies and services
4. Continue to improve financial stability
5. Lead progress toward being a healthier community



V. Environmental Assessment:

Trends In Hospital Healthcare

The traditional hospital model is under greater pressure than ever before, prompting some to ask, are hospitals becoming obsolete? This model, with the hospital as a central provider of broad inpatient and outpatient services, is challenged by both increased overhead and reduced reimbursement by government and commercial payers. In addition, new forms of competition are emerging, reflecting the continuing shift from inpatient to outpatient care.

The challenge facing small hospitals today is to continue providing essential services to a community in this quickly changing healthcare environment while improving or stabilizing operating margins. This has never been as urgent as it is today.

Decreased Payments: Changes in reimbursement are impacting all hospitals, notably the anticipated shift to a single payer system or health plans proposing payment at the same level of Medicare. Hospitals are increasingly dependent on government insurance programs. This is acutely felt by small hospitals, which tend to have a high mix of Medicare and Medi-Cal patients today. With the demographic trends, more patients are insured by Medicare and less have commercial insurance.

High Costs: The overhead required to be an acute care hospital, even a large one, is not sustainable. There is immense pressure to reduce total healthcare spending. At the same time, operating and capital costs are rising in many areas, from staffing and pharmaceuticals to mandated new technology. In California physicians cannot live on the reimbursements alone and are now a major part of the overhead expected to be covered by hospitals.

Inpatient Care: Acute inpatient volumes are decreasing despite the aging population. This has led to a corresponding reliance on providing outpatient care, which has lower margins. Most hospitals that have an average daily census of under 25 and are 30 miles from other facilities qualify as “Critical Access Hospitals” and get much better reimbursement from Medicare. In addition, home-based and non-hospital delivery of care is being used to meet an ever larger array of healthcare needs due to lower costs and perceived improved safety.

Regulations: Unfunded and unrecoverable federal and state mandates continue to drive up hospital costs, especially in California. Four federal agencies alone account for 629 regulatory requirements for hospitals, according to The American Hospital Association, which estimates that the regulatory burden alone costs hospitals \$1,200 each time a patient is admitted.

Hospital Alternatives: This is an area of growing disruption as ambulatory and outpatient care is being addressed by smaller hospitals and, increasingly, hospital-alternative options. These include surgery and imaging centers and urgent care or physician outpatient clinics. More recently major retail pharmacies are moving to become community care centers, as evidenced by the recent announcement of the merger between CVS and Aetna. Some hospital systems and communities are experimenting with “neighborhood”

Environmental Assessment: Trends In Hospital Healthcare *(cont)*

or “micro” hospitals that provide access to emergency care and outpatient services locally while transferring or referring more critical and complex cases to tertiary care hospitals in cities.

Home Health Care: Home-centered treatment is growing, along with virtual care ranging from telemedicine to mobile apps. Home health spending is projected to outpace all other types of care, reports Home Health Care News, citing CMS data that an estimated \$103 billion will be spent on home health in the US this year, increasing to nearly \$173 billion by 2026. However, very few hospitals today are involved in skilled home care due to the low reimbursement and high costs.

Technology and Equipment Costs. Keeping up with technology demands is a major and continuous overhead concern for hospitals. Updating Electronic Health Record systems and replacing very expensive imaging equipment are examples of multi-million-dollar investments that all hospitals must continuously make and which have a disproportionately greater impact on small hospitals.

Insurance Trends. There is a long-term trend by Medicare, Medi-Cal and commercial insurers to push more of the risks associated with care costs into the provider system. HMOs (such as Kaiser) and large healthcare systems increasingly are taking on these risks using data on patient outcomes and best practices to manage the total cost of care. Small hospitals will need to be part of a larger healthcare system to manage in this type of environment, as they will never have the scale and resources to assess and manage risks in smaller populations.

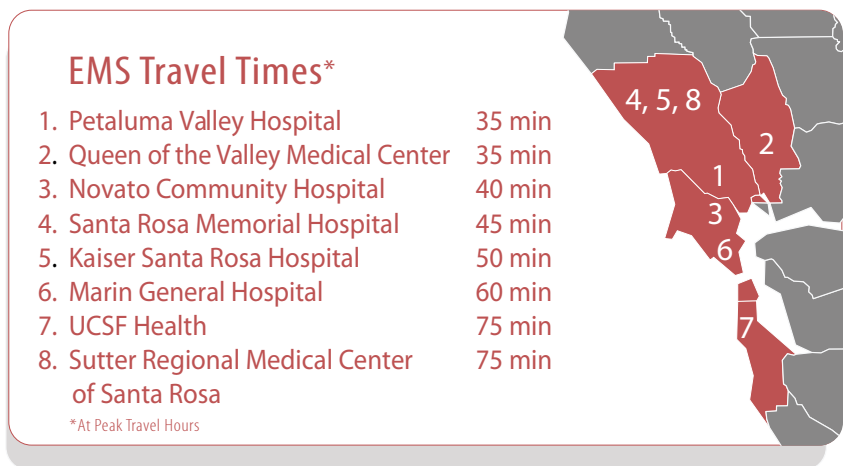
Emergency Services. Demographic trends and lack of mental health resources have driven up demand for emergency care. This has a mixed impact on small hospitals. An Emergency Department operating 24/7 is an expensive proposition, especially factoring in the support services required by government regulations. Emergency departments serve all patients and are often inundated with uninsured patients that continue to pose considerable financial risk.

VI. Competitive Position

Sonoma Valley Hospital is surrounded by several multi-hospital systems with provider networks and clinics in the North Bay. St. Joseph/Providence Healthcare manages or owns three hospitals: Petaluma Valley Hospital, Queen of the Valley Hospital and Santa Rosa Memorial. Kaiser Permanente has the largest market share in our area with several hospitals and provider clinics in Petaluma, Novato, Santa Rosa, Napa, Vallejo and San Rafael. Sutter Health has one hospital in Novato and another in Santa Rosa. Sutter also has a health plan in Sonoma County with a small physician network, but it does not have a major market share in Sonoma Valley’s primary service area.

Given this competition, SVH maintains an advantage in its market due to the travel time required to drive to other hospitals. This advantage is most critical for emergency services and OB.

SVH has recently affiliated with UCSF Health, a major and highly respected healthcare system in the Bay Area. We anticipate that this affiliation will provide the support and resources to improve market share for SVH in the years ahead. Marin General Hospital, which is a major partner for higher level care to SVH, has also recently affiliated with UCSF. UCSF currently has less than 5% of the market share in Sonoma Valley.



Kaiser is our biggest competitor with 46% of the commercial market in our region. It offers a low-cost solution for Medicare patients in Sonoma with Kaiser’s Medicare Advantage Plan drawing more patients away from SVH. Even though there is competition for patients through the insurance plan, SVH continues to serve Kaiser members as their local Emergency Department. Kaiser represents 32% of our Emergency Department revenue.

Physician groups are the key drivers of SVH volumes, with a majority of patients coming from our local physicians. SVH provides support to Prima Medical Foundation, which has an office in Sonoma. In addition, SVH has started a 1206b clinic to help support other physicians. Meritage Medical Network manages most of the physician insurance contracts and manages risk contracts for the North Bay. SVH enjoys a high level of physician loyalty from this collaborative relationship and market share for our physicians is high. While St. Joseph and Sutter Health have large provider networks in close proximity to SVH, none of these physician practices have successfully migrated to Sonoma Valley.

SVH also works closely with health centers, such as Sonoma Valley Community Health Center, directing patient to both the hospital and our local specialists. There are several other organizations that direct patients to SVH including Partnership Health Plan and California Department of Corrections and Rehabilitation.

VII. SVH Situation Analysis

The Community Served

SVH and the Sonoma Valley Health Care District serve a small community, running from Glen Ellen through the City of Sonoma, including Boyes Hot Springs, El Verano, Fetters Hot Springs and Agua Caliente, and also the Temelec area, Schellville, Eldridge and Vineburg. The two main zip codes served are 95476 and 95442, which identify the primary service area. The population of the district is approximately 42,000.

Age of Residents and Growth Rate of Seniors

SVH's service area has a disproportionate share of 50+ residents and is under-represented in younger age categories. In 2017 residents aged 65 and older made up 24.8% of the total population, and this segment of the population is growing the fastest. There are significantly more young people living in the Springs area compared to the rest of Sonoma Valley.

Growth of Latino Population

Over the past three years Sonoma Valley's Latino population has increased to 29% and is projected to grow to over 30% within the next several years. The Springs area has a significantly larger proportion of Latino residents at over 50%. In the Sonoma Valley overall, 35% of Latinos are uninsured. SVH continues to support the Latino population with increased access to healthcare services as well as bilingual health education and communication. Sonoma Valley Community Health Center is the major provider for our Latino population.

Payer Mix Trends

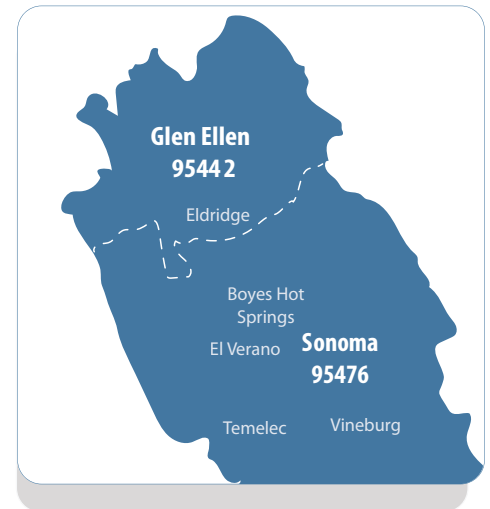
The dominance of government as the main reimbursement source underscores the need for additional sources of revenue and community support. Medicare volumes continue to represent over half of our payer mix. Medi-Cal has increased over the years to 17%. The percentage of patients with commercial insurance has decreased to approximately 19%, which is of great concern as commercial insurance was key to past financial viability. The hospital receives approximately \$3.8 million per year from the parcel tax. The current parcel tax expires 2022.

Patient Experience

SVH has above-average patient satisfaction and continues to improve. The Centers for Medicare and Medicaid Services (CMS) measures satisfaction in 10 domains, and each domain is compared to a national percentile rank. SVH is consistently above the 60th percentile in almost every domain. This means that SVH has higher inpatient satisfaction than 60 percent of all hospitals in the country. In 2017 we added a satisfaction tool called "Rate My Hospital" for Emergency and Outpatient services and we rate above 4.5 on a 5.0 scale in all areas, which is very high.

Quality Outcomes

SVH is in the top 25 percent of hospitals in the nation based on quality of patient outcomes. We are also rated by CMS as a 4-star hospital. In addition to the CMS outcome measures, safety and quality indicators



SVH Situation Analysis *(cont)*

are regularly monitored and reported to the District Board Quality Committee and all exceed national benchmarks. SVH staff and our physicians strive to provide excellent care for all of our patients. We also maintain state-of-the-art technology and an excellent environment for the highest quality.

Emergency Care

Emergency services are the foundation for our community commitment. This is a significant community investment due to the high level of required expensive support services to be an Emergency Department. The Marcia and Gary Nelson Family Emergency Department was opened in 2014, and since then we have seen an increase in emergency visits. SVH's market share for our Emergency Department is over 70%. The volume has now stabilized with approximately 11,000 visits per year.

Surgical Services

While it took a couple of years to increase surgeries, SVH has enjoyed great success in the last two years with surgical procedures growing by 20%. However, the surgeries that have increased are not as intensive, which means less revenue. Ophthalmology, Endoscopy and Surgical Pain Management have increased dramatically. Bariatrics, General Surgery and Orthopedics have remained stable and continue to draw patients from outside the district. There is still opportunity to increase Breast Surgery, Gynecology, Vascular and Urology.

Inpatient, OB and Skilled Nursing Care

The overall trend over the past five years is a decline in inpatient discharges. Fewer patients are qualifying for an inpatient stay and are now treated as outpatients. With fewer inpatients the Skilled Nursing Facility census also decreases. The Skilled Nursing Facility average length of stay has significantly decreased from 16 to 12 days with very few patients staying for the long term, as in the past. Obstetrics continues to decrease each year as this corresponds to the trend of a lower number of births in the Valley. In early 2018, A Woman's Place was launched with several physicians with a focus on increasing Breast Surgery and Gynecological services.

Outpatient Services

Outpatient services have remained flat, while in previous years we have seen increases of over 3%. SVH has high market share in Diagnostics, Occupational Health, Wound Care and Physical Therapy. However, visits are down in every service line due to insurance denials. There is an opportunity to increase Echocardiograms with the addition of another Cardiologist in the community who starts in June. The new 3D Mammography will also increase volumes. Observation and Special Procedures have declined a bit.

Partnerships/Affiliations

We work closely with many local health care providers to provide a seamless continuum of care to our patients. This year we took a big step in affiliating with UCSF Health, which ranks as the top hospital in California and one of the top five nationally. This relationship calls for us to work together to create a comprehensive, sustainable and integrated healthcare network to serve the needs of Sonoma Valley residents. It also strengthens our ability to service our community by providing access to the latest technology and specialized treatment options. SVH is also a part of the Prima Medical Foundation with five physicians in our community. Canopy Health is now the risk partner for Western Health Advantage, instead of Marin General

SVH Situation Analysis *(cont)*

Hospital. St. Joseph continues as the risk partner for SCAN at this time. Both hospital risk partners are managed by Meritage Medical Network.

Operational Efficiency

The trends in healthcare have challenged the hospital to manage costs effectively. We have developed new analytical tools allowing us to better understand margins by service line and identify ways to reduce overhead without compromising patient care. As a result, we are one of the few hospitals succeeding at the benchmark of Medicare reimbursement. We have nine service units at this time: Emergency, Inpatient (includes Med/Surg and ICU), Outpatient Surgery, Rehabilitation, Skilled Nursing, OB, Occupational Health, Special Procedures and Home Care. Home Care and OB costs exceed reimbursement at this time. Other service lines produce a direct margin, but these margins are shrinking due to increased hospital costs such as salaries. We will add a new service line – Physician Clinics (1206b) – in FY 2019. Occupational Health continues to be a complex, difficult service line to maintain.

Financial Stability

Despite managing the hospital very efficiently, the direct costs of salaries, supplies and physicians have increased. The cash on hand has improved but is still not stable. SVH has not added any significant debt and has almost paid off the Electronic Health Record investment from 2011. Much of the deferred maintenance from the past 30 years has been addressed, leaving only imaging equipment upgrades needed. SVH now owns the “South Lot” and has agreed to sell off a portion of this land to a developer. The hospital does not spend much on capital and usually relies on the SVH Foundation for support. The Foundation is now helping us replace the CT and MRI units and may fund a new Outpatient Diagnostic Center in the hospital.

Physicians

The shortage of Primary Care coverage is becoming more of a challenge for Sonoma Valley as physicians retire. In a recent survey 60% of our PCPs report they are not accepting new patients. In addition many of the physicians who remain in our community are not able to cover their practice costs and look to the hospital for support. We opened a 1206b clinic (District-owned physician office) and plan to expand this clinic by adding Primary Care Providers in FY 2019.

Charity Care

Like all hospitals SVH serves all patients who require it, regardless of the ability to pay. As such, SVH provides substantial amounts of uncompensated care. When this care is provided to patients who lack the financial resources, it is classified as Charity Care. In FY 2017 the hospital provided \$365,700 in Charity Care.

Community Benefit

The hospital leadership provides many innovative health improvement programs to the community. We participate in many community activities such as health fairs and providing educational events. Many of our programs are collaborative with organizations such as Vintage House, the Sonoma Valley Community Health Center and Integrative Health Practitioners. We provided over 1400 hours of community benefit in FY 2017.

VIII. Strategies & Tactics FY 2019

Strategy

Tactic

Achieve the highest levels of healthcare safety, quality and value as measured by star ratings

- Achieve the “Highly Reliable Organization” goals
- Become a stroke certified Emergency Department
- Ensure we provide evidence based, advanced medicine with the new Chief Medical Officer
- Continue to focus on patient experience to increase satisfaction for inpatients and outpatient surgery through CAHPS measurements
- Maintain excellent outpatient satisfaction through RateMyHospital
- Continue to improve staff engagement throughout the hospital with emphasis on staff giving direct Inpatient and Emergency care
- Continue our effective “Culture of Safety” program
- Use the suggested Hospital Quality Institute scorecard and share it

Be the preferred hospital for patients, physicians, health plans and employers as measured by volumes

- Work with UCSF to increase patient perception about the level of care we can provide here at home
- Work with UCSF to increase physician loyalty
- Complete the Outpatient Diagnostic Center with a new MRI, CT scanner and patient waiting areas
- Increase the awareness of Canopy Health and direct patients to our facility
- Recruit another primary care physician with a focus on Geriatrics
- Meet with the major health plans, including Kaiser, to promote our high value (low cost/high quality)
- Continue to work closely with physicians for retention and loyalty through outreach, marketing and innovative services
- Expand telemedicine to offer neurology and psychology consults
- Address the concern about lack of medical Gastroenterology

Identify and implement new and enhanced revenue strategies and services as measured by direct margins

- Work with UCSF to build programs of distinction, with a focus on inpatient and post-acute care
- Open a Cardiology Center with the addition of the new Cardiologist
- Grow the Women’s Health service line with the new Breast Surgeon and additional OB/GYNs
- Achieve destination as a Rural Health Center with most of our primary care physicians in the Valley
- Work with the many pain management physicians to develop a pain network
- Continue to support the expansion of the Whole Health Weight Loss Institute throughout Northern California
- Continue to market Colorectal Surgery
- Consider opening an Urgent Care center for after hours and weekends
- Implement EPIC in the local physician offices with UCSF to give them affiliate status
- Explore Medical Tourism strategies since Sonoma is a very popular destination

- Educate the employers on their choices of health plans and how they affect their community hospital
- Continue to increase the awareness of the primary care physicians and their availability, especially in pediatrics
- Explore the next generation of our Information Technology and continue to improve our electronic health records
- Facilitate discussions on a new Medical Office Building in Sonoma
- Continue to recruit physicians to the Valley to increase access
- Explore the needs of behavioral health with the County

Continue to improve financial stability as measured by EBDA

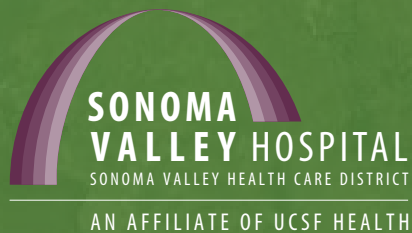
- Considering the urgency of what is facing small hospitals, create a model for financial stability
- Using the Cost Accounting system, continue to improve margins by service line
- Work with UCSF on opportunities to increase efficiency and/or reduce overhead
- Complete the sale of the South Lot
- Explore divesting the Healing at Home service line to a strong partner
- Evaluate the future viability of Inpatient Services
- Find a viable energy solution to reduce utility costs
- Continue to improve the revenue cycle efficiency using technology
- Ensure 1206b Clinics are financially stable
- Consolidate the physician offices into one location for efficiency and better access
- Implement an easy way for patients to access services through centralized scheduling with on-line capability
- Evaluate the future of the OB service line if volumes do not increase
- Evaluate the future of Occupational Health and the need by the community
- Consider taking direct risk for SCAN patients with Meritage Medical Network working with UCSF
- Continue to work with SVHF to raise funds for capital needs

Lead the progress toward being a healthier community as measured by health status

- Continue Health Education with GirlTalk, Conversation With A Doctor, Active Aging series and other well attended health education programs
- Participate in the county-wide Community Needs Assessment
- Continue to work with SVHF on community engagement and philanthropic support
- In a new community perception survey, ask what we can do to improve health
- Continue to work on Latino outreach and improve our perception of being supportive of diversity
- Work with Bright Heart Health to reduce opioid dependency
- Consider therapies, e.g., medical cannabis, for the community
- Continue to inspire health and wellness through our culture and by providing a space for wellness ambassadors to lead others
- Continue to attend local community events and work with groups spreading our positive message and inspiring good health
- Continue to promote and support the Integrative Health Network with alternative therapies



Our Vision:
*A trusted resource for compassionate,
exceptional healthcare.*



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